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APPLICATION NO.	FILING DATE	FIRST NAMED INVENTOR	ATTORNEY DOCKET NO.	CONFIRMATION NO.
10/043,403	01/10/2002	Norman Hay	29752/36543B	9366

34431 7590 08/17/2004

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EXAMINER	
MEINECKE DIAZ, SUSANNA M	
ART UNIT	**PAPER NUMBER**
3623	

DATE MAILED: 08/17/2004

Please find below and/or attached an Office communication concerning this application or proceeding.

ww

37 CFR § 1.105 - Requirement for Information

1. In response to Applicant's amendment filed April 29, 2004, the new Examiner of record has decided to withdraw the previously pending art rejection. However, in light of an updated search, the current Examiner deems a Requirement for Information under 37 CFR § 1.105 to be a prudent course of action at present.

2. Applicant and the assignee of this application are required under 37 CFR 1.105 to provide the following information that the examiner has determined is reasonably necessary to the examination of this application. Please note that the Examiner has located information about the assignee, Renessen, on Cargill's web site [URL: http://www.cargill.com/news/00_06_renessen2.htm] under the heading "Renessen's Revolution" (attached as Appendix A). In this web page, several of the inventors of the instant application, including Norman Hay, Bruce Barnett, and Jeff Schlachtenhaufen, are mentioned as being both current employees of Renessen and former employees of Cargill. It appears that Renessen is a subsidiary, or somehow otherwise related company, of Cargill. Applicant is reminded that all related companies (e.g., parent companies and all subsidiaries) are responsible for fulfilling the requirement for information under 37 CFR 1.105 as well as the expressly named inventors and assignee.

3. The information is required to extend the domain of search for prior art. Limited amounts of art related to the claimed subject matter are available within the Office, and are generally found in class 705 and subclasses 7-10, which describe general operations of an organization. A broader range of art to search is necessary to establish the level of knowledge of those of ordinary skill in the claimed subject matter art of providing subsidiaries to farms in an effort to encourage the harvesting of alternate crops. The Examiner has located many articles about government farm subsidy programs, including the various U.S. farm bills of 1990 and 1996. These same articles mention Cargill as a recipient of many of the subsidies. Cargill also has a subsidiary called Cargill Risk Management Products Group that specializes in mitigating risk normally associated with the harvesting of certain crops (discussed in attached Appendix B). In other words, Cargill and its subsidiaries (or related companies) seem to have a firm grasp on how subsidies are doled out to different farms (as exemplified by the numerous articles mentioning Cargill and farm subsidies found in attached Appendices C-I). The Examiner requests documentation of how the subsidy programs in which the assignee (and/or related companies) have participated are run, including information regarding how a source of subsidies selects who will receive the actual subsidy funds and how much each will be paid. Furthermore, was this selection process performed manually by any entity and, if so, by whom and how? Has there ever been an automated or computer-based version of at least part, if not all, of the farm selection process, especially as it is recited in the claimed invention? If so, how does it compare to the

functionality of the claimed invention? Does the Applicant or assignee have a working model(s) of the claimed invention, either in part or in its entirety? If so, what is the name of this working model(s)? Has Applicant or assignee disclosed to the public any aspects of the claimed invention, either in part or its entirety? What laws or government-sponsored or industry-sponsored programs throughout the world is Applicant or assignee aware of that make a determination of how and to whom incentives to grow alternate crops are given? This may include crop replacement programs, subsidies to plant more environmentally friendly crops, subsidies not to plant certain crops (e.g., drugs, fruits, vegetables, etc.), etc.

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4. In response to this requirement, please provide the citation and copy of each publication that is a source used for the description of the prior art in the disclosure. For each publication, please provide a concise explanation of that publication's contribution to the description of the prior art.

In response to this requirement, please provide the citation and a copy of each publication that any of the applicants relied upon to develop the disclosed subject matter that describes the applicant's invention, particularly as to developing a selection process for selecting the recipients of subsidies or incentives to grow an alternate crop. For each publication, please provide a concise explanation of the reliance placed on that publication in the development of the disclosed subject matter.

5. The fee and certification requirements of 37 C.F.R. § 1.97 are waived for those documents submitted in reply to this requirement. This waiver extends only to those documents within the scope of this requirement under 37 C.F.R. § 1.105 that are included in the applicant's first complete communication responding to this requirement. Any supplemental replies subsequent to the first communication responding to this requirement and any information disclosures beyond the scope of this requirement under 37 C.F.R. § 1.105 are subject to the fee and certification requirements of 37 C.F.R. § 1.97.

6. The applicant is reminded that the reply to this requirement must be made with candor and good faith under 37 CFR 1.56. Where the applicant does not have or cannot readily obtain an item of required information, a statement that the item is unknown or cannot be readily obtained will be accepted as a complete response to the requirement for that item.

Conclusion

7. This requirement is subject to the provisions of 37 C.F.R. §§ 1.134, 1.135 and 1.136 and has a shortened statutory period of TWO (2) months. EXTENSIONS OF THIS TIME PERIOD MAY BE GRANTED UNDER 37 CFR 1.136(a).

8. Any inquiry concerning this communication or earlier communications from the examiner should be directed to Susanna M. Diaz whose telephone number is (703) 305-1337. The examiner can normally be reached on Monday-Friday, 9 am - 5 pm.

If attempts to reach the examiner by telephone are unsuccessful, the examiner's supervisor, Tariq Hafiz can be reached on (703) 305-9643.

Any inquiry of a general nature or relating to the status of this application or proceeding should be directed to the Receptionist whose telephone number is (703)308-1113.

Any response to this action should be mailed to:

Commissioner for Patents
P.O. Box 1450
Alexandria, Virginia 22313-1450

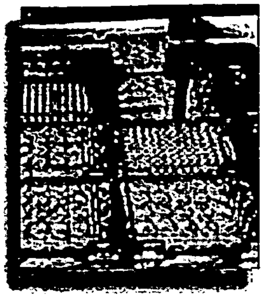
or faxed to:

(703)305-7687	[Official communications; including After Final communications labeled "Box AF"]
(703)746-7048	[Informal/Draft communications, labeled "PROPOSED" or "DRAFT"]

Hand delivered responses should be brought to Crystal Park 5, 2451 Crystal Drive, Arlington, VA, 22202, 7th floor receptionist.

Susanna Diaz
Susanna M. Diaz
Primary Examiner
Art Unit 3623
August 9, 2004

TARIQ R. HAFIZ
SUPERVISORY PATENT EXAMINER
TECHNOLOGY CENTER 3600



Appendix A

Rennessen's revolution, Page 2 Back

Big rewards

So far the board of Renessen has approved about 10 projects. Not all of those projects will be winners. In fact, Renessen people say they expect only about a 30 percent success rate. But even at that, the impact could be huge.

"If all the projects we're currently working on prove to be successful, they'd represent a market worth of around $5 billion," said Norman Hay, co-CEO of Renessen and former head of Cargill's grain business. "This is a business of big risks and big rewards."

The major biotechnology tool Renessen will use is transgenics - taking genes from one species and putting them in another to create a useful trait (see companion story). Traditional corn breeders may, for example, spend 10 or 20 years crossing plants - exchanging huge blocs of genetic material - in the hopes that a tiny sequence will express itself in the right way to get more protein in the kernel. Renessen scientists hope to be able to develop such traits precisely and in a fraction of the time.

"Renessen will provide some huge opportunities for Cargill businesses," said Laura Crosby, manager of the Cargill Alliance Organization, which is responsible for managing Cargill's relationship with Renessen.

Just about everybody involved with Renessen makes another point: It's unique. So far, no other company brings together the skills, background, market knowledge and global reach of organizations like Cargill and Monsanto.

"The biotechnology industry is moving rapidly, but at this point nobody else is doing what we're doing," said Bruce Barnett, who went from heading Cargill's Tax Department to Renessen's chief financial officer. "We have a clear field."

In the blazing fast world of technology, where being first to market can be a crucial advantage, Renessen is standing alone.

"Renessen has the promise to totally revolutionize agriculture," said Mike Chorlton, Renessen vice president for processing. "We won't do it ourselves. We'll do it by serving as a link between the resources of Cargill and Monsanto, along with coordinating some outside research."

Chorlton formerly headed Saskferco, Cargill's nitrogen fertilizer joint venture in Canada. "Nitrogen fertilizer was a mature industry," he said. "I wanted to do something different, and this was the most radical thing that came along."

Futuristic furnishings

A visi · Renessen's office on the utskirts of Chicago makes it clear

that something is different here. Behind a locked iron-grillwork gate in the reception area, a Chinese-style fountain provides the sound of gently flowing water.

Past the gate and fountain, you come to the offices – or lack thereof. There are no walls or even cubicles. Instead, the Herman Miller furniture consists of "Resolve" units – tables outfitted with what appear to be sails that rotate around a central pole. The sails can be wheeled around to screen the work pod from a neighbor or to open the area for discussion.

As a result, it's hard to say where one office space stops and another starts. Next to the units are a whole series of meeting rooms of different sizes, and off in the corners are arrangements of comfortable chairs for less formal gatherings.

Renessen employees carry portable phones, so even when they're filling a coffee cup or sitting in the comfortable office library, they can take calls and share ideas.

"The office is a physical manifestation of the way we're trying to develop our culture and team behavior," explained Alan Rowold, a former Monsanto manager who leads Renessen's human resources. "Even a square cubical says 'mine.' The pods make it easy to dissolve space, to roll a chair over and work with your neighbor."

"Renessen has to be open, and you can see that in our office structure," said Hay. "We have to be fast; we have to build connections and share information. Teams are constantly forming to put ideas forward, kill the ones that don't work and move on."

The connections include the parent companies – Cargill and Monsanto. "We're a small business of huge resources," Germain said.

Besides the nearly 50 employees at Renessen, there are some 130 scientists, most of them at Monsanto, who are working with Renessen to add desired traits to crops.

As teams form, ideas are generated. It could be a Monsanto scientist proposing a certain trait in corn. Then a Cargill person might take the lead in determining whether such a trait would actually have market value for animal nutrition or grain processing. Meanwhile, Renessen people are coordinating the teams or assigning research to Monsanto scientists or to independent genetic laboratories or universities. The mix of the team shifts, depending on the stage of the project.

All three players – Renessen, Cargill and Monsanto – are essential to this process.

Renessen needs Cargill for its customer and market knowledge. Monsanto provides the biotechnology resources to develop new specialty traits. Access to Renessen products will help Cargill follow its strategy of customer solutions.

"Ideally, we want to start from a position of knowing the market and work backward to determining the traits the market needs," explained J[illegible] Schlachtenhaufen, a former Cargill employee who works in

strategy and marketing for Renessen. "That means starting with Cargill expertise in the animal nutrition and grain processing markets.

"The times Renessen has worked as closely with its parents as we've hoped, it's been really neat. We've had Cargill people explaining how animal nutrition works, and Monsanto people saying, 'We can't do that, but we could do this.' You can see the creative energy and Renessen coming together as a pretty powerful concept.

"Renessen is simply a way to join the two parents together to do things neither one could do alone. We want both parents to thrive," Schlachtenhaufen said.

For Cargill to thrive with its Renessen investment, it will need to start working more in depth with Renessen now in order to develop and commercialize products in the future, said Bob Lumpkins, Cargill vice chairman, CFO and Renessen co-chairman. "Cargill's grain, feed and processing businesses must roll up their sleeves today to develop the capabilities needed to be leaders in this industry transformation," he said.

Super corn

In its first year, Renessen has concentrated on enhanced corn, canola and soybeans for the swine and poultry industries. Besides improved feed products, Renessen's charter includes crops with benefits for the processing industry, such as oilseeds enhanced with tocopherols (natural source vitamin E).

Eventually, Renessen will move into quality traits for crops that will help the dairy and beef industries. Cattle, with their rumen digestive systems, present a more complicated model for nutrition.

Excel's Allen is optimistic about how far Renessen has come in its first year. "Renessen has assembled a very good team," he said.

One of Renessen's first products is high oil corn produced through conventional breeding. The germ of the kernel is visibly bigger, packed with oil that provides extra energy in an animal ration. Conventional corn is about 3.5 percent oil while this variety is double that.

A pilot crop of 2,000 metric tons has been harvested in Argentina. Within a couple more years, Renessen expects to be supplying a substantial amount of the crop for the poultry feeding market, said Axel Hinsch, a Cargill employee who is supervising the project for Renessen.

With more oil in the kernel, there's less need to supplement feeds with animal fat – a messy operation in tropical countries. High oil corn offers feed manufacturers better handling and feed customers better nutrition. The potential market for the product includes Argentina's traditional grain customers in South America, Asia and the Middle East.

Just as important as the product is the process. Developing and marketing the high oil corn will allow Renessen to create processes and relationships that will apply to the biotech crops coming down the

road.

"We're laying out the business systems so we can jump-start future projects," Hinsch said.

For example, in order to deliver the extra value, Renessen has to prove it can identity-preserve the crop all the way from fields to the customers. Cargill's grain team in Argentina has been a key to the project. "We're working with the same group that identity preserves and handles food-grade corn for Kellogg's in Europe," Hinsch said. "Monsanto is more involved on developing the seeds."

The project has allowed Cargill and Monsanto people to get to know one another and understand how they can work through Renessen. Nobody says it's easy. Just the care that must be taken to guard the parent companies' intellectual property is considerable. But for those involved, the additional work is worth it.

"This is a chance to be part of the future – to create a legacy that's going to have a fundamental impact on our business," Cieslak said.

Chorlton puts it this way: "I've always wanted to be in a business that has a noble purpose. Agricultural businesses – whether it's fertilizer or biotechnology – are very positive for mankind. Renessen is a case where we have an opportunity to combine noble purpose with the free enterprise system and create a very successful company. The two outcomes aren't incompatible."

The Renessen employees in Chicago clearly believe both outcomes can be achieved.

"If we're just half as successful as we envision we can be, Renessen will be very well known," Germain said. "We are in a business of high value and high profits. Either we'll become very big in what we do, or we will cease to exist. Neither Renessen nor our parent companies are going to be satisfied with minor successes when the aim is to transform an industry."

Appendix B

7/9/4 (Item 1 from file: 635)
DIALOG(R)File 635:Business Dateline(R)

0800405 97-60392
Subsidies **substitute**
Barshay, Jill J
Star Tribune-Minneapolis (Minneapolis, MN, US) pD1
PUBL DATE: 970311
JOURNAL CODE: XSTR DOCUMENT TYPE: Newspaper article
WORD COUNT: 1,040
DATELINE: Minnetonka, MN, US, Midwest

TEXT:

In a remote Minnetonka back office of the grain giant **Cargill** Inc., financial wizards devised a way for the Canadian government to eliminate cattle price supports without leaving ranchers in the lurch.

Though technically the solution is a complex concoction of derivatives, the concept is as simple as flood insurance. Instead of protecting against an overflowing river, **Cargill** 's insurance policy guards against a bad market.

For a few extra dollars each, ranchers are guaranteed a minimum price per pound of cattle no matter how far the cattle market in Chicago may fall. And if the market goes up, they can take the profit to the bank.

"The old way, when the industry lost money, the government wrote a check," said Gary Jarrett, co-head of **Cargill** 's financial trading group.

Under the new system, Ottawa still writes a check--but it goes to **Cargill** to pay the company's administrative costs for supporting the cattle-and-foreign currency combo hedge. **Cargill** also gets money from the ranchers, who must pay for their own derivatives.

What **Cargill** is doing north of the border is spreading south to Pipestone, Minn., where a corn farmer is able to guarantee a minimum price for his crop but earn more if prices rise. Further afield, a textile mill in Italy, a cotton grower in Africa and a flour miller in the Caribbean all are buying **Cargill** 's price-hedging tools to gain a measure of stability in their unpredictable lines of work. On the horizon, **Cargill** sees applications to non-agricultural commodities, particularly electricity.

Over the past 2-1/2 years, **Cargill** , with $56 billion in annual sales, has been ramping up this side business. Established to be a profit-making venture, it gives its customers access to Jarrett's high-powered trading group, which already buys and sells securities to hedge risk for **Cargill** 's own commodity businesses, from cotton to orange juice.

As with the Canadian cattle ranchers, the driving force behind the spread of **Cargill** 's price-hedging tools is that belt-tightening governments are pulling back on agricultural price supports.

In the United States last year, government retrenchment translated into the Freedom To **Farm** **Act** , which tore down myriad price supports on major program crops, such as wheat and corn.

But farmers and food processors still need some way to cope with notoriously volatile agricultural prices. For example, last summer's corn futures swung $3 per bushel. For a contract that usually moves in pennies, that kind of movement can make or break a farmer.

"Our aim is to make these moves less painful, and possibly irrelevant," said Brent Bechtle, who structures the hedges for **Cargill** 's customers.

And if **Cargill** 's experts are correct, price volatility will worsen in the coming years because of increased agricultural demand from the developing world. "In a world with M[illegible] they want chicken ne[illegible]," explained

Jarrett.

"The timing of our group is that **Cargill** saw this volatility coming," said Bechtle. "Before, producers had government **subsidies** and safety nets. Now, they need financial instruments to create those floors and ceilings. The government isn't stepping in to cushion shocks."

"And **Cargill** has an interest in making sure farmers don't go out of business. We sell them feed. We buy their products," added company spokeswoman Lori Johnson. "We're also looking for things that set us apart. Lots of people have [grain] elevators. Corn is corn. Wheat is wheat."

Cargill is well suited for the mission. With a giant agri-business and a cutting-edge financial services division, the company already was one of the most sophisticated commodities hedgers internationally.

"You can't buy these products on an exchange. No one else has them," said David Dines, who tailors options packages for clients along with his colleague Bechtle.

Behind the times

"The competition is offering an 8-track tape," said Jarrett, referring to Archer Daniels Midland and other commodity giants.

By and large, the commodity market has yet to tap the financial innovations spawned by the bond market in the 1980s, from Structured-finance tricks to interest-rate swaps.

On commodity exchanges, old-fashioned futures contracts dominate. They are basic obligations to buy or sell a commodity 5,000 bushels of soybeans, for instance--at a specific price on a designated date. With an options contract, a soybean farmer can toss the agreement out the window if the market price turns out to be a better deal. But because options require an up-front payment, farmers seldom buy them.

Cargill 's Minnetonka traders, many lured away from Wall Street's top brokerages, are steeped in new-fangled financial market innovations and responsible for a few of their own. Their aim is "to apply risk management tools to agriculture and soft commodities," as Dines put it.

Premier New York firms like Salomon Brothers Inc. and Goldman Sachs & Co. probably could reach into their risk-management tool boxes and match what **Cargill** is offering to farmers and food processors. But market rules prohibit U.S. investment banks from making "physical" contracts and restrict them to fiscal, or financial, instruments. Under that thinking, a hedge on cocoa beans is the same as buying a box of chocolates.

And though Canadian and European outfits are free to combine commodity and financial contracts, they haven't made a significant investment in this area.

Business tripled

Cargill says its new derivatives operation, called **Cargill** Risk Management Products Group, has tripled its business since last year, with hundreds of options purchased by its customers. With typical **Cargill** secrecy, the private company refused to mention a dollar total. But the scope of the operation is indicated by the fact that **Cargill** has hired seven full-time employees in Minnetonka and four in Geneva to market the new products to customers.

"We package the options into the existing [supply] contract so that they're easy to understand," Dines said. But still he laments that "people are more intimidated with options than they need to be."

The Caribbean flour miller isn't. This commodity processor has locked in a maximum price for the wheat he buys through **Cargill** . And if the market price falls, a special average-price option allows him to average all the prices during the contract period and pay that instead.

Nor did derivatives put off an Italian textile mill, which uses a, similar price option to buy cotton. On the flip side of that arrangement, a cotton grower in Africa hedges his sale price.

7/9/2 **(Item 1 from file: 141)** Appendix C
DIALOG(R)File 141:Readers Guide

03015828 H.W. WILSON RECORD NUMBER: BRGA95015828 (THIS IS THE FULLTEXT)
Eating into the deficit.
AUGMENTED TITLE: efforts to slash farm **subsidies**
Budiansky, Stephen.; Hage, Dave.; Black, Robert F.
U.S. News & World Report v. 118 (Mar. 6 1995) p. 73-8
DOCUMENT TYPE: Feature Article
SPECIAL FEATURES: il ISSN: 0041-5537
LANGUAGE: English
COUNTRY OF PUBLICATION: United States
RECORD TYPE: Abstract; Fulltext RECORD STATUS: Corrected or revised record
WORD COUNT: 3691

ABSTRACT: For the first time since the government began to **subsidize** farmers during the Great Depression, serious discussion of major cuts of farm programs has started in Congress. Sen. Richard Lugar of Indiana, a corn and soybean farmer and chairman of the Senate Agriculture Committee, has proposed gradual reductions of the $14 billion that the federal government annually provides to farmers in price supports, export **subsidies** , conservation programs, and **subsidized** insurance and credit over the next five years. He warns that failure to enact his proposal could lead to more extreme action in the House, where some Republicans have advocated axing farm **subsidies** altogether. Farm organizations plan to fight the cuts, but they concede that they are a viable target.

TEXT:

Every five years, with a timing that coincides remarkably well with the expiration of that multibillion-dollar package of fine print known as the **farm bill** , a rugged character from America's mythical past makes his reappearance on the national stage. The family farmer--steward of the soil, bringer of nutritious yet bargain-priced bounties, courageous foe of devious foreign traders--all he seeks is a fair price for his honest toil. What, after all, is 1 percent of the federal budget when weighed against the salt of the earth?

This year, apparently, plenty. As work begins on the 1995 **farm bill** , the family farmer is being upstaged by a more insistent character on the political stage: the budget deficit. For the first time since the government began **subsidizing** farmers during the Great Depression, there is serious talk of major cuts--and even elimination--of farm programs. "We'd be stronger in American agriculture if we didn't have all of this," declares Richard Lugar, Indiana Republican, corn and soybean farmer and chairman of the Senate Agriculture Committee.

For starters, Lugar has proposed a downward "glide path" that, over the next five years, would drop an average of $3 billion from the $14 billion the federal government annually doles out to farmers in price supports, export **subsidies** , conservation programs and **subsidized** insurance and credit. Lugar further warns that failure to accept his "mild remedy" could lead to a wholesale gutting of the program, especially in the House, where farm states don't enjoy the disproportionate clout they wield in the Senate and where some revolution-minded Republicans have already called for axing farm **subsidies** in total.

Tough report. The Clinton administration has tiptoed around the issue and will probably not offer a specific proposal at all. But the president's Council of Economic Advisers did not hesitate to launch a blistering attack; its annual economic report, released last month, called farm programs wasteful, unnecessary and even harmful to the U.S. economy for rewarding inefficiency and preventing farmers from responding to the market.

John Keeling, a lobbyist for the American Farm Bureau Federation, the largest farm group in the country, says his organization will fight to keep direct payments to farmers at the current $10 billion-to-$12 billion level but admits that farm programs, once a sacred cow, have become in the public mind a symbol of wasteful government spending. "We've become the $500 toilet seat," he concedes.

Several factors explain the farmer's descent from Jeffersonian hero to

pork king. The shrinking farm population--fewer than 2 percent of Americans live on farms--has vastly diminished the clout of the farm lobby. And the new Republican majority that has sworn to cut big government will find it hard to go after welfare and food stamps without addressing the billions that are transferred from taxpayers to above-average-income farmers each year. Equally important are economic changes that have made a mockery of the traditional justifications for farm **subsidies** . "The macro effects [of abolishing farm programs] would be negligible," argues Edward Lotterman, an agricultural economist at the Federal Reserve Bank of Minneapolis. "It would not be anything you could pick up anywhere in the GNP statistics."

The basic structure of the modern agricultural economy is the major reason farm **subsidies** can be cut today. "A lot of the reasons for farm programs that existed in the '30s are gone," says James Schaub of the Office of the Chief Economist at the U.S. Department of Agriculture. A tiny fraction of America's 2.1 million farms now account for almost all farm production. These are large commercial operations that, whether they are family owned or not, are run as modern business enterprises. The small or medium-sized "family farm" of a few acres to a few hundred acres survives mainly because members of such families no longer depend on farming for their income. In many cases, both the husband and wife work part time or full time off the farm.

Big farms. The 15,000 largest farms in America, for example, account for more than one quarter of all farm profits in the entire country; the 123,000 largest farms capture 60 percent of profits. The overwhelming share of the total gross income on these farms--roughly three quarters--comes from commodities such as vegetables, fruits and meat that are not even supported by government **subsidies** . Government payments to these large commercial farms average $24,000, a mere 3 percent of their gross income.

Meanwhile, 1.9 million farm households derive a majority of their income from off-farm employment. Two thirds of all farms--the 1.4 million smallest, with sales of less than $40,000 a year--actually derived 101 percent of their income from off-farm sources: Their owners used their paying jobs to help cover an average $400-a-year loss from farming. Each of these farms nonetheless received an average of $800 in direct government payments in 1992--a **subsidy** of $1.1 billion for what are in truth hobbies, not moneymaking enterprises at all.

"The essential rationale for these programs in the 1930s was to support the income of a substantial sector of the country," notes C. Ford Runge, a University of Minnesota economist. In 1930, 26 percent of Americans lived on farms; their average income was a third that of nonfarmers. "Today," adds Runge, "only 10 percent of the people living in rural areas derive a majority of their income from farming. These numbers alone are almost sufficient to explain what the problem is--the money is going to a very small number of people." And it is going to people who enjoy a standard of living above the U.S. average and who have a net worth of close to half a million dollars. "The whole thing is a funnel for payments to people who are rich by any standard," insists Runge.

Farm organizations often counter that the programs are not meant to be welfare; they are intended to ensure stable markets and fair prices. The basic argument is that because the farm market is extremely competitive--farmers all grow virtually identical products--farmers cannot control the price they receive; as prices fall, each farmer will plant more, not less, to make up for his loss of income, further driving prices down.

Since the 1930s, the principal farm programs have attempted to control supplies and guarantee prices through a variety of means. Today, farmers who grow major crops such as corn, wheat, rice and cotton receive a direct payment whenever the price per bushel falls below a "target price" set by Congress. It always does, because Congress sets very generous target prices. Every 5 cents-a-bushel drop in the price of corn costs the federal government a quarter of a billion dollars. In exchange for these "deficiency payments," farmers must agree to follow USDA's directions to "set aside" a part oftheir cropland--currently some 50 million acres nationwide. By taking this land out of production, supplies are restricted and the market price is propped up.

Other commodities--mainly sugar, peanuts and dairy--receive price supports indirectly, in the form of restrictions on imports and on how much a farmer can grow. In many years these programs do not cost the government anything directly; instead, consumers ot the bill in higher prices that

result from the artificial scarcity created in these products.

But again, much has changed since the New Deal days, in particular the globalization of farm markets. Explains the USDA's Schaub: "There is an inconsistency in trying to manage a U.S. supply when we're in a global market. To idle resources if other countries are not, all we're doing is forgoing market share." Richard Pottorff of the WEFA Group, an economic forecasting firm, adds that even if supply control is successful, it is self-defeating. "To the extent we raise prices," he says, "we encourage international competition."

The enormous growth in transportation, storage facilities, market information and agricultural technology since the 1930s also means that farmers today are far better able to weather changing market conditions on their own. If prices drop, they can quickly respond by shifting to other crops or store their harvest for sale at a later date. Farmers also have greater access to credit markets to tide them over in rough times, and they can hedge against price downturns in the futures market, which did not exist 60 years ago.

Finally, argues Lotterman, the fluctuations farmers regularly face are already much greater than any stabilizing effect the farm programs provide. In Minnesota, Wisconsin, the Dakotas and Montana, he explains, "the drop in livestock prices from January to July last year was a bigger hit than a complete elimination of federal farm payments. That puts things in perspective."

Free markets. Farm programs can actually discourage farmers from responding to the market because they **subsidize** some crops and not others and because they require farmers to plant a set acreage in those crops to maintain their eligibility for **subsidies** . Farmers who in a free market might respond to a dip in price by planting other crops now hang on year after year planting corn, rice, wheat, cotton, tobacco and peanuts knowing that no matter what happens to the price, the government will always be there as a buyer of last resort.

The most widely accepted argument that advocates of the farm program advance is that government payments are a way to preserve open space and protect environmentally fragile lands. About $2 billion a year is spent on the Conservation Reserve Program, which rents 36 million acres of highly erodible land from farmers to remove it from production and to establish wildlife habitat. Also, **subsidies** have been capitalized into the value of farmland; to end farm programs would send prices down, and, says the Farm Bureau's Keeling, "drive the bankers nuts if nothing else."

For these reasons, as well as the residual political clout that the few remaining agriculture-dependent states retain in the Senate, no one expects a complete elimination of farm programs this year. Lugar's downward glide path plan would reduce target prices 3 percent a year, while retaining the conservation programs (though perhaps at a lower level) and a $1.3 billion-a-year **subsidized** crop insurance program to insure farmers against disasters. "It's time to plow a new furrow," Sen. Pete Domenici, chairman of the Senate Budget Committee, said last week. Lugar's message is that farm groups can choose either his furrow--or the scorched earth that may be waiting for them on the House floor.

FARMERS AND FOOD STAMPS

Cutting aid programs won't have a big impact on agricultural incomes

For decades, American farmers and supporters of federal nutrition programs for the poor have cross-fertilized their political interests in Washington. This odd partnership has directly benefited the U.S. agriculture industry by creating an increased demand for a variety of food products as well as surplus commodities.

The alliance has also helped congressional legislators from agricultural states pick up crucial urban votes for the reauthorization of the **farm bill** . If food assistance is put into block grants for the states, as the Republican welfare plan advocates, these nutrition programs will no longer fall under the jurisdiction of the Department of Agriculture and the agriculture committees on Capitol Hill. This, says Hyde Murray of the American Farm Bureau Federation, would "eliminate the support that is a necessary part of the coalition needed to pass the **farm bill** ."

Minor damage. The **farm** -city partnership is now battling aggressively to prevent agriculture **subsidies** and the $40 billion worth of federal nutrition efforts--including food stamps and the school lunch program--from

being cut in Washington. The nutrition programs currently represent almost 60 percent of the Department of Agriculture's overall budget. Yet a recent analysis by the department shows that reducing federal food assistance by $5 billion and turning the remaining $35 billion over to the states in the form of block grants would not dramatically affect farm income and operations for most commodities.

If the states are allowed to provide cash to welfare recipients rather than food stamps, low-income families may reduce their total food spending anywhere from 15 to 30 cents on the dollar because they have many competing needs for income. As a result, the impact on farmers could be greater, according to the Department of Agriculture study. But most economists do not believe that these food program cuts would force American farmers out of business.

In the end, however, even the most intense lobbying efforts by agricultural interest groups may not be enough to prevent the once powerful urban-rural coalition from wilting in the face of critical deficit-reduction efforts.

A GRAIN OF TRUTH

Washington's agricultural export **subsidies** actually hurt business

When Congress's budget hawks took aim at the federal farm program last month, a natural target was the $1.2 billion system of export **subsidies** designed to help American farmers sell grain, cheese and other commodities abroad. After all, none of the **subsidies** go directly to farmers, who might take revenge in the voting booth if funds were cut. And the organizations that do receive payments--chiefly giant grain merchants such as **Cargill** Inc. and Louis Dreyfus Corp.--say export **subsidies** are a terrible idea. **Cargill** , which received $203 million in Department of Agriculture export bonuses last year, echoes a chorus of economists in saying that the payments merely use taxpayer money to **subsidize** foreign customers, divert demand from other American products and clutter up the world grain trade with government paperwork.

Yet under the Clinton administration's proposed 1996 federal budget, spending on the biggest export **subsidy** , the Export Enhancement Program, would actually rise from $800 million this year to $959 million next year. EEP payments make up the difference when a grain merchant such as **Cargill** buys commodities from American farmers at a high domestic price and then sells them at a reduced price to eligible export customers. A related program to enhance dairy exports would rise from $112 million to $117 million under Clinton's budget plan. In addition, the $110 million Market Promotion Program, which has helped major corporations such as McDonald's and Pillsbury advertise Egg McMuffins and sweet corn abroad, remains uncut.

No one doubts the importance of world markets to American farmers. The United States will export a record $48.5 billion worth of farm products this year, or perhaps one fourth of total farm output. American farmers produce one fifth of the world's cotton, one third of its corn and almost half of its soybeans. U.S. agriculture will also run an estimated trade surplus of $20 billion in 1995, making it one of America's largest net exporters. The nation's strong performance is rooted in a growing worldeconomy, which is pushing up incomes in many key countries, a favorable currency exchange rate and reduced foreign competition in some bulk commodities.

Odd business. The problem is that export **subsidies** almost certainly backfire on consumers and producers. A USDA economist estimated in 1989 that roughly 90 percent of wheat exports under EEP would have taken place without **subsidies** , which means the government actually undercut the price of goods that would have been sold anyway. In fact, federal **subsidies** have made export wheat so cheap in some markets that foreign customers began substituting it for unsubsidized corn they might have bought from American farmers, according to William Pearce, **Cargill** 's former vice chairman. In three of the past six years, for example, U.S. corn exports plunged when Export Enhancement **subsidies** for wheat increased. Says economist Robert Paarlberg of Wellesley College: "This is an export displacement program, not an export enhancement program."

In some cases, export **subsidies** may actually reduce America's competitive position. Because countries such as Japan are not eligible for **subsidized** grain under the Export Enhancement Program, grain traders complain that the United States has lost their business to other wheat

exporters such as Australia, which can sell below the unsubsidized U.S. price. Last year, EEP **subsidies** may even have helped foreign wheat producers increase their sales in the United States. Says Robert Petersen of the National Grain Trade Council: "[The program] makes the U.S. a high-price island in a world of low wheat prices." By making up the difference between domestic U.S. wheat prices and world prices, EEP **subsidies** kept the U.S. price more than $1 per bushel above world levels for much of 1993, contributing to a spike in Canadian wheat exports to the United States.

Advocates say the **subsidy** programs remain necessary because America's competitors use even bigger **subsidies** . The European Union, for example, spent $13.1 billion last year to underwrite farm exports, compared with $1.2 billion in U.S. payments. American wheat farmers, who export about half of their crop and account for about three fourths of Export Enhancement bonuses, are especially alarmed at proposed budget cuts. "To disarm unilaterally," declares Judy Olson, past president of the National Association of Wheat Growers, "would not be good for American farmers."

Of course, these **subsidy** wars were supposed to end last year, after the United States and its trading partners signed a sweeping new edition of the General Agreement on Tariffs and Trade, the international free-trade rule book. But when talks stalled over farm **subsidies** in 1993, negotiators agreed only to reduce--not eliminate--their export programs. Explains Timothy Galvin, associate administrator of the USDA's Foreign Agricultural Service: "People think GATT created a level playing field, but that's just not the case." As a result, the United States could spend some $500 million on export **subsidies** in the year 2001, while the European Union will spend even more.

For years, the arcana of agriculture were left to farm-state legislators on Capitol Hill. But this year, even a Corn Belt Republican like Indiana's Richard Lugar wants to eliminate EEP for a five-year saving of $3.4 billion as part of his **farm bill** overhaul. Lugar will have formidable opposition, but he has put farm **subsidies** squarely in the middle of a very public debate.

Rich harvest
Agricultural **subsidies** , designed to compensate farmers for declining crop values, have grown significantly since 1980 despite relatively flat farm commodity prices.

[Data for chart is not available.]
Reaping big benefits
Despite their large sales and incomes, America's biggest farms receive much more government aid on a per-farm basis than their smaller, and less profitable, counterparts.

[Data for chart is not available.]
USN&WR--Basic data: U.S. Dept. of Agriculture

Top crops
American agriculure's most heavily **subsidized** commodity products

Feed grains	$3,701 million
Wheat	1,181 million
Rice	959 million
Cotton 354 million	
Dairy	267 million
Peanuts	119 million
Wool and mohair	108 million

Note: Data are fiscal 1995 estimates. Other crops are indirectly **subsidized** through programs that drive up prices by restricting supply.

A federal feeding frenzy
Farm **subsidies** for many states represent a significant percentage of the total federal income tax revenue they [illegible]d to Washington.
Direct Fede[illegible] tax

	farm **subsidies** received (1993) millions of $	revenues paid (tax year 1992) billions of $	**Subsidy** -tax ratio (percent)
North Dakota	564	1.0	58.6
South Dakota	432	1.1	38.3
Nebraska	806	2.7	30.0
Montana	338	1.2	29.0
Iowa	1,229	4.5	27.3
Arkansas	705	3.1	22.8
Kansas	784	4.6	17.2
Mississippi	384	2.9	13.4
Idaho	159	1.6	10.1
Minnesota	823	9.1	9.0
Oklahoma	324	4.6	7.1
Louisiana	367	6.0	6.1
Missouri	455	9.0	5.0
Wyoming	43	0.9	4.8
Texas	1,421	32.9	4.3
Indiana	379	10.1	3.8
New Mexico	76	2.1	3.6
Colorado	250	7.4	3.4
Wisconsin	310	9.1	3.4
Illinois	851	26.7	3.2
Alabama	137	6.1	2.2
South Carolina	103	5.0	2.1
Arizona	114	6.1	1.9
Georgia	226	11.9	1.9
Tennessee	161	8.7	1.9
Kentucky	97	5.3	1.8
Oregon	93	5.1	1.8
Washington	207	11.9	1.7
Utah	37	2.5	1.5
Michigan	241	17.8	1.4
Ohio	265	19.7	1.3
North Carolina	132	11.1	1.2
Maine	20	1.8	1.1
California	522	62.5	0.8
Delaware	6.2	1.5	0.4
Florida	111	27.7	0.4
Vermont	3.4	0.9	0.4
Virginia	46	13.3	0.3
West Virginia	6.3	2.3	0.3
Maryland	26	11.4	0.2
Nevada	7.0	3.5	0.2
New York	72	43.1	0.2
Pennsylvania	45	23.3	0.2
Alaska	1.8	1.5	0.1
Hawaii	3.1	2.5	0.1
New Hampshire	1.9	2.5	0.1
Connecticut	2.9	10.8	0.03
New Jersey	7.3	22.3	0.03
Massachusetts	3.6	14.6	0.02
Rhode Island	0.1	1.9	0.01

USN&WR--Basic data: USDA, Internal Revenue Service

Added Material

Drawing: The GOP agenda; Picture: Top of the mountain. Some of America's largest and most profitable farming operations receive **subsidies** . Many don't need them. (Kevin Horan); Picture: New deal. Farms have changed since **subsidies** began. (David Stoecklein--Frozen Images); Charts: Rich harvest; Reaping big benefits (U.S. Dept. of Agriculture; Robert Kemp--USN&WR); Picture: Green machine. A large-scale vegetable farm in California uses technology to bring in the crops. (Sarah Leen--Matrix); Chart: Top crops; Picture: Aid. State block grants could affect food stamps. (Charlie Archambault--USN&WR); Chart: A federal feeding frenzy (USDA, Internal Revenue Service); Picture: Smooth sailing. Agricultural exports have been a strong part of U.S. foreign trade in recent years. (Michael Douglas--Third Coast)

Appendix D

7/9/3 (Item 1 from file: 148)
DIALOG(R)File 148:Gale Group Trade & Industry DB

09383993 SUPPLIER NUMBER: 19213854 (THIS IS THE FULL TEXT)
Lawmakers declare war on ethanol subsidy , **release report dismissing supposed benefits.**
Music, Kimberley
Oil Daily, v47, n50, p1(2)
March 14, 1997
ISSN: 0030-1434 LANGUAGE: English RECORD TYPE: Fulltext; Abstract
WORD COUNT: 622 LINE COUNT: 00052

ABSTRACT: A General Accounting Office report, 'Tax Policy: Effects of the Alcohol Fuels Tax Incentives,' concluded that ethanol **subsidies** established in 1979 have not significantly affected either the environment or US energy security. Reps Bill Archer, John Lewis and Phil English are leading the fight in the House to kill the **subsidies** , which have diverted $1.7 billion away from highway trust funds. Archer-Daniels-Midland, the party that stands to be most affected, with a 50% market share in the ethanol-fuel market, had donated $1.1 million each to both the GOP and Democratic Party.

TEXT:

WASHINGTON -- Armed with a government watchdog's findings that the ethanol tax break does little for the environment or for energy security, a group of House lawmakers is waging war on the **subsidy** .

In Tax Policy: Effects of the Alcohol Fuels Tax Incentives, released Thursday, the General Accounting Office (GAO) says that ethanol **subsidies** have diverted $7.1 billion from highway funds since 1979 --but "have had little effect on the environment" and "have not significantly enhanced U.S. energy security."

Eliminating ethanol from fuels would increase carbon monoxide emissions slightly, but at the same time would bring about a slight drop in emissions of ozone precursors -- and would have little impact on global warming, the report said.

Even farmers get a mixed bag: The report says corn producers benefit at the expense of cattle farmers and consumers of corn products.

While critics claim the report contradicts previous GAO ethanol studies, the government watchdog says those reports were done in the context of the **farm bill** and focused on different aspects of ethanol.

The ethanol-busters are being led by Reps. Bill Archer (R-Texas), John Lewis (D-Ga.) and Phil English (R-Pa.). Legislation introduced by Lewis and English will be the House vehicle, Archer said.

Lewis said the 54 cents/gallon tax break qualifies as "corporate welfare" because it favors one industry over another.

The **subsidy** will cost taxpayers $2.4 billion between 1997 and 2000. Abolishing it would divert money to highway trust funds, including $215 million to California, $137 million to New York and $166 million to Texas, Archer said.

"Never have so many given so much to support so few," English said.

And the primary corporate beneficiaries are Archer-Daniels-Midland (ADM), which owns 50% of the nation's ethanol capacity, and Minnesota Corn Processors and **Cargill** , which account for 15%.

ADM's sweet **subsidy** does not come cheap, political money analysts say.

In the political money game of 1995-96, ADM gave both parties $1.1 million in soft money, individual, and political action committee donations, according to the Center for Responsive Politics.

Announcing a new bipartisan congressional coalition to kill the **subsidy** , Archer said he and fellow ethanol-busters have a "higher chance of success than we did last year," when he tried to pare the ethanol tax **subsidy** by 3 cents/gallon.

That effort, during electioneering by ADM pal and corn-state-raised Sen. Bob Dole, was nipped in the bud by House Speaker Newt Gingrich.

Gingrich's position on the issue is uncertain this year, but Archer begins his tough fight against 19 ethanol-producing states with the backing of House committee chairmen Bob Shuster (R-Pa.) and Bob Livingston (R-La.) -- as well as the GAO report.

"This year, with this report, we can win," English said -- though not if the American Corn Growers Association and the Renewable Fuels Association (RFA) can help it.

RFA's Eric Vaughn has already challenged Archer's interpretation of the GAO report, claiming it says that if "more ethanol were being used, there would be energy and environmental benefits" that are not seen today.

"If anything, it validates a call for more ethanol use, not less," he said.

Vaughn and Edwin Rothschild, energy policy director of Citizen Action, have both called attention to the connection between Archer and his "Big Oil" constituents, with political deep pockets of their own.

Without the **subsidy** -- which tilts the market in favor of the corn-derived fuel additive -- the gap likely would be quickly filled by methyl tertiary butyl ether (MTBE), a petroleum-based additive, the GAO report said.

7/9/5 **(Item 1 from file: 637)**
DIALOG(R)File 637:Journal of Commerce

Appendix E

LETTERS TO THE EDITOR
JOURNAL OF COMMERCE (JC) - August 14, 1990
Edition: Five Star Section: EP Page: 8A
Word Count: 710

MEMO:
LETTERS TO THE EDITOR

See also related editorial: CARGO PREFERENCE, on page 8A.

TEXT:
PREFERENCE "STUDY'

IS PROPAGANDA

Facts that have just come to light with respect to the origin of two pieces attacking the Cargo Preference Act that appeared in The Journal of Commerce indicate that the paper was used unwittingly or otherwise by the grain traders who have been seeking to eliminate American-flag shipping from the carriage of U.S.-taxpayer supported agricultural export programs.

When The Journal of Commerce carried the first story on May 30 ("Study: Replace Preference Act With Direct **Subsidy** Program") of "a study" by a University of Minnesota professor, C. Ford Runge, calling for the replacement of the Cargo Preference Act, its timing, just as opponents of the U.S.-flag merchant marine were seeking crippling amendments to the **farm bill** being debated in Congress, aroused suspicions as to the good professor's real purpose.

That the study was less of a scholarly effort and more of a partisan propaganda effort was readily apparent in its uneducated assertion that the Cargo Preference Act has failed in its mission to provide a capable fleet for maritime needs, and that U.S. shipping is incapable of providing adequate logistical support to the U.S. military.

Had the professor not been circumscribed by his objective, he could easily have ascertained from military sources that cargo preference is responsible for sustaining a substantial portion of the shipping capability which is available for national security purposes.

Then, as the debate intensified, The Journal of Commerce obligingly ran a lead piece on its Editorial/Opinion page, "Cargo Preference Is Bad Policy" (June 29), of which Mr. Runge, along with one of his students, is co-author. Mr. Runge was described as "associate professor and director of the Center for International Food and Agricultural Policy at the University of Minnesota."

Highly suspicious that the by-lined attack on cargo preference was a plant and part of a public relations effort to help secure amendments that would weaken or destroy the shipping requirement, we asked the University of Minnesota Center for Agricultural and Food Policy how it is funded. Other than saying that the study was funded by the Minnesota Sea Grant Program and the "Northwest Area Foundation," the center refused to tell whence its financial support was derived.

From other sources I have just learned what helps make the university's agricultural policy center tick, and I hasten to pass it on because I believe that in the interests of editorial objectivity the record should reflect all the pertinent facts surrounding the published material in question. A substantial portion of the endowment which funds Mr. Runge's policy center was contributed by **Cargill** Inc. and Archer Daniels Midland.

Specifically, the center's funding is derived from the interest on a $1.2 million account, half of which came from the university permanent endowment fund, the other half as a matching contribution from private industry, mainly **Cargill** and Archer Daniels Midland and the Cowles

family.

Cargill and Archer Daniels Midland are two of the big grain trading companies among those actively seeking elimination of cargo preference and who, incidentally, own and/or charter large numbers of foreign-flag vessels. They are also recipients of massive U.S. government **subsidies** as participants in the agriculture export programs. (**Cargill** alone received $445 million of **subsidy** out of a total of the $2.3 billion in U.S. Export Enhancement Program **subsidies** paid to grain exporting companies from September 1985 through February 28, 1989.)

Fortunately for the overall national interest, the efforts of Mr. Runge and his clients to torpedo our small but vital American-flag shipping industry was defeated by Congress, which obviously understands that this world will always have to contend with the Saddam Husseins and that a maritime capability is an indispensable part of the equation for preserving freedom.

Mr. Runge and The Journal of Commerce have an inherent right to have their say in any way they choose. But I believe, too, The Journal of Commerce has an obligation to allow its readers to understand that what may have appeared as a seemingly objective scholarly pursuit of Mr. Runge was compromised by the financial support his policy center receives from parties opposed to the Cargo Preference Act.

Herbert Brand

Chairman

Transportation Institute

Camp Springs, Md.

A related editorial appears at left.

DESCRIPTORS: LETTERS; OP-ED
COMPANY NAMES (DIALOG GENERATED): Archer Daniels Midland ; **Cargill** Inc ; Center for International Food and Agricultural Policy ; Had ; Journal ; Minnesota Sea Grant Program ; Replace Preference Act With Direct **Subsidy** Program ; Transportation Institute ; U S Export Enhancement Program ; University of Minnesota Center for Agricultural and Food Policy ; University of Minnesota Center for Agricultural and Food Policy

Appendix F

7/9/6 (Item 1 from file: 724)
DIALOG(R)File 724:(Minneapolis)Star Tribune

08212111
WHOSE FARM POLICY IS IT ANYWAY? TO UNDERSTAND WHY MANY AMERICAN WILDLIFE POPULATIONS FLUCTUATE, AN UNDERSTANDING OF U.S. FARM POLICY -- WHO CONTROLS IT, WHO WRITES IT, WHO BENEFITS BY IT -- IS NECESSARY. IN THE INTERVIEW BELOW, FARM POLICY EXPERT C. FORD RUNGE OUTLINES WHAT'S AT STAKE IN THE CURRENT FARM-POLICY DEBATE.
STAR TRIBUNE (MS) - Sunday, July 30, 1995
By: Dennis Anderson, Staff Writer
Edition: Metro Edition Section: SPORTS Page: 18C
Word Count: 2,713

MEMO:
Dennis Anderson
See microfilm for chart.

TEXT:
THE CONFLICT

Never before has American farm policy come under such close scrutiny.

In part this is because money is tight in Congress this year. In part it is because the drive to reform American farm policy, and strip it of many of its **subsidies** , is gaining momentum nationwide.

Meanwhile, some segments of agribusiness, as well as large-scale farmers and others who benefit from the current policy, are trying to preserve their benefits, if not increase them.

And conservation interests, who have greatly benefited from the Conservation Reserve Program, which was begun in the 1985 **farm bill** and renewed in 1990, are lobbying to include in the 1995 **farm bill** provisions that would continue to reduce farmland runoff, preserve topsoil and increase wildlife habitat.

C. Ford Runge is a professor in the Department of Agricultural and Applied Economics at the University of Minnesota, where he also holds appointments in the Hubert H. Humphrey Institute of Public Affairs and the Department of Forest Resources.

A Wisconsin native and resident of Stillwater, Runge, 42, received his doctorate in agricultural economics at the University of Wisconsin, his master's degree as a Rhodes Scholar at Oxford University and his bachelor's degree at North Carolina-Chapel Hill.

Runge has served on the staff of the House Committee on Agriculture, and as a Science and Diplomacy Fellow of the American Association of the Advancement of Science, working in U.S. AID on food and trade, as well as special assistant to the U.S. Ambassador to the General Agreement on Tariffs and Trade (GATT) in Geneva.

From 1988-91, Runge served as the first director of the Center for International Food and Agricultural Policy at the University of Minnesota. He owns and operates a small farm in Wisconsin.

In the interview below, Runge discusses U.S. farm policy as it is being developed this year in Washington, and discusses as well prospects for renewing the Conservation Reserve Program, which many conservationists believe is the most effective such plan ever developed.

Q: U.S. farm policy is developed every five years, and has vast implications for many entities, including farmers, agribusiness, soil and water and American wildlife.

Is the debate over the 1995 **farm** bill more remarkable this year than in previous years?

A: Since the writing of the 1985 **farm** bill , which was the first to

authorize the Conservation Reserve Program, there has been a slow drift in agricultural policy toward ''decoupling'' -- that is, the decoupling of payments to farmers that are tied to the growing of particular commodities. We currently have a 15 percent decoupled payment, and are likely to move further in that direction this year in order to respond to budget-cut needs. So that's one reason there is intense interest this year in farm policy development.

Additionally, since 1985, there has been broader recognition that farm program benefits are concentrated in fewer and fewer hands. Benefiting most are the largest farmers, because commodity payments are based on the number of acres in particular programs. The more acres you have in a program, the greater your entitlement to be paid by the government.

It's worth noting that many people who own program acres, and who receive commodity payments, don't live on those acres, or don't even necessarily operate them. They may have inherited the land, they might be renting it out, or whatever. Which is why many checks cut by the USDA aren't deposited in banks in, say, Fairmont, Minn., but instead end up in accounts of people living in Scottsdale, Ariz., or accounts of people who are lawyers or professors.

Q: Do environmental considerations play a large role in the farm policy debate this year?

A: Environmental issues as part of the debate are growing more important. This is true in part because a constituent base can't be built out of the relatively narrow number of people who receive farm policy benefits. Mitigating this, however, this year is the Republican Congress, which has taken a fairly hostile view of environmental policy in any guise.

In fact, one of the hypocrisies of the Republican Congress is that while they talk a fairly good line on budget cuts and the cutting of entitlement programs, they -- particularly Pat Roberts of Kansas, the House Agriculture Committee chairman, as well as Sen. Bob Dole of Kansas and Minnesota Sen. Rod Grams -- have turned a blind eye toward cutting entitlements that are part of agricultural programs.

In the end, because CRP and commodity programs are in a zero sum equation --in that one's gain is the other's loss -- CRP will probably come up with less than it currently now has in terms of dollars. Put another way, the degree to which Republicans are prepared to go to the mat to protect the big boys in agriculture will correspond, inversely, to the amount of money left over to fund environmental programs such as the Conservation Reserve.

Additionally, the **farm bill** debate, particularly that part involving CRP, ultimately will turn to some extent on whether the big boys are sufficiently benefited by CRP to lobby for it as a continuing part of their benefits.

Q: Who are the ''big boys?''

A: They are those who own large base acreages enrolled in commodities such as corn, wheat, cotton and rice.

Q: Are the big boys also commodity companies such as **Cargill** and Acher Daniels Midland?

A: In a way. But the general position of the agribusiness complex is that they favor decoupling, because it is in their interest to have large volumes of commodities moving into world markets.

Q: Do agribusiness interests such as **Cargill** and ADM also favor the continuation of export **subsidies** , which have yielded them billions of dollars in the past 10 years?

A: The 1985 **farm bill** initiated the Export Enhancement Program, which was developed as a kind of counterweight to the **subsidies** paid to farmers in the European community. Ever since, the program has been defended as a weapon in the arsenal we need to defend ourselves against

European **subsidization** . My view is that if it is indeed a weapon, it's a dud, and should be ended immediately.

Doing so would generate about $4 billion, which is money that would be far better spent directly on farm income supports, but particularly on a revised Conservation Reserve Program, in which we would make strenuous efforts to target income directly to farmers and farm families.

Example: It's known that when a bushel of wheat is sold that farmers capture only 5 percent of its price. So if, as has been determined, EEP is generating only about 1 of 10 new commercial sales, the benefits to farmers of EEP is extremely small.

Q: Some factions allege that U.S. farm policy is bought and paid for every five years by agribusiness and others who directly benefit, and that the interests of soil and water stewardship, and of taxpayers -- who fund farm policy -- are rarely considered.

A: It is an oversimplification to say these interests buy American farm policy. It is true that those who benefit by growing cotton, rice, peanuts, tobacco, corn, soybeans and other primary commodities, as well as those in agribusiness, help develop farm policy. But other groups play roles, too, including food and consumer groups, and even some environmental groups.

Q: How did the U.S. government become so heavily involved in farm policy?

A: It began in 1933, in a period of nationwide economic depression. At the time, nearly a quarter of the work force was directly involved in agriculture production. A depression had been under way in the countryside for nearly 10 years before it hit the financial markets. in fact, one of the most disastrous policies that triggered a wider depression was U.S. trade legislation that attempted to cut off competition from other countries. This in turn set off tariff wars worldwide, spreading the depression.

Thus was born interventionist U.S. farm policy. Originally, it was intended to be short-lived, the mission of which would end when the nation's financial condition improved. But in many ways, farm policy is unchanged from 1933, in that we pay farmers on the basis of acres in production, and we tie to the payments a requirement that a certain number of acres be taken out of production.

The irony is that these programs have continued even though today only about 2 percent of the population makes a living as farmers, and of that number, about 300,000 producers dominate commercial production, accounting for the lion's share of the received **subsidies** .

So a program that was supposed to help a large share of the population has now become an entitlement for people who are by any measure wealthier than most Americans. In essence, it's turned out to be a gravy train for rich Republican farmers.

Q: If the current farm policy should be ended, how could it be done?

A: The first step would be to put a cap on federal agricultural spending. Most Americans don't know that agriculture essentially has an open budget, depending on what the government's commodity-program obligations turn out to be, which depends how the crops do.

Putting a cap on ag spending would have the effect of taking it out of the entitlement category. It would impose discipline.

The second and more substantive issue is: How do we pay for agriculture, and whom do we pay?

I've argued that we should provide direct support to farmers, focused primarily on conservation and environmental concerns. Secondly, we should not be spending most of the money on 15 to 20 percent of the farmers -- the

biggest ones -- and instead should limit amounts going to any particular farmer. The money should instead be spent in ways that benefit the rural economy, broadly speaking.

Nationally, only about 10 percent of people in rural areas derive the majority of their income from farming. The other 90 percent work jobs outside farming. So if one is concerned about the rural economy, it's absurd to think you will bail it out by sending checks to people who sometimes don't even live there.

There are needs in rural America for improved health care, child care, transportation and telecommunications, all of which would make rural areas not only attractive, but superior places to live and to invest. By shortchanging them, more and more people are attracted to urban areas, which can't support people living there now.

Q: Isn't that idea as socialistic, as it were, as America's interventionist farm policy has been?

A: I am and will continue to be an advocate of intervention where the market fails to provide goods and services, such as in these areas.

Q: What do you think of the annual Acreage Reduction Program, in which farmers are paid not to grow crops on a certain number of acres annually, depending on the extent of the farmer's enrollment in farm programs?

A: In general, the ARP should end. We should let farmers grow what they want.

Q: What should happen to the Conservation Reserve Program?

A: The problem with CRP is that it has always had a dual identity. It's traveled as an environmental program, but it actually is in many ways a commodity-constraint program.

In 1985, when CRP was developed, no one knew when farmland values would stop dropping. So what the government essentially proposed to do in the form of CRP was effectively rent land at levels of payment that turned out to exceed, on average, cash rent levels by as much as two times.

CRP's intent, thus, was not only, or even primarily, environmental, but to deal with the problem of bottomless land values, and to respond to the high levels of surplus production that were manifest in 1985.

There were also considerable environmental benefits of CRP, and its inception essentially was a marriage of convenience between environmentalists and traditional advocates of supply control.

But like many such marriages, it was difficult to keep peace in the house. The essential problem became obvious when people began to study what land was enrolled in CRP. It was not always the most vulnerable land that was enrolled; instead it was land that had been enrolled in base acreage, because land had to have a cropping history to be enrolled.

Three questions should be asked about CRP in the current debate: which lands are enrolled, but shouldn't be? Which land belongs in the program and should remain in on environmental grounds? And which lands are not in the program but ought to be?

One political concern about the current CRP debate is that a significant alteration of it would result in a distribution of acres away from the Dakotas, Montana and Minnesota. Some wildlife groups have tended to join in this fear, because they worry that wildlife in these areas would be threatened.

In recognition of the political and ecological impacts of amending CRP, my view is that we ought to apply the retargeting and reallocation of CRP in such a way that each state is required to reallocate lands in CRP -- subject to budget cuts that occur -- within its own boundaries. So in the final analysis, the states that have large enrollments now would continue

to have them, but not necessarily on the same lands. This would allow states to preserve their share of benefits, but to reallocate lands in CRP to maximize environmental impacts.

In Minnesota, such a reorientation would probably shift acreage from west and southwestern Minnesota toward the central and southeast parts of the state. But the net effect would be to enhance environmental values while freeing up acres on which CRP dollars have achieved dubious environmental returns.

Q: Is this plan being discussed in Washington?
A: I have discussed these ideas with various members of Congress and their staffs. But to what extent the conversations have been or will be converted into policy, I don't know.

Q: How do you propose to determine value for lands enrolled in a retargeted CRP?

A: I would offer a flat rate based on a set of environmental indicators, i.e., determine a parcel's environmental value as wildlife habitat or riparian land or wetlands or whatever.

I also believe CRP funds should be block granted to states, and that the three-part reallocation method I've described be implemented. Some contracts would not be renewed. Some would have the option to renew at a given payment rate. Others would be enrolled for the first time at corresponding rates.

Q: As a political and fiscal reality, CRP funding probably will be cut by some percentage. Does that mean fewer acres would be included in a revised CRP?

A: Not necessarily. A reduction of 15 to 20 percent in CRP funding need not translate into a cut in overall CRP acres. If you get away from paying farmers CRP rental rates that are twice what the market would pay, you will find dollars spent more efficiently.

Q: Should farmers be able to farm land not in CRP in any way they want?

A: No. Conservation compliance requirements would continue to apply. But I would add that such measures ought to apply whether or not a farmer is enrolled in a farm program. Unfortunately, conservation compliance requirements are tied to participation in such programs. So if you were one of the substantial number of, say, cattlemen or grain producers who did not participate in a commodity program, conservation compliance requirements have not applied on your lands.

Q: What do you believe is most likely to occur as federal farm policy evolves this year?

A: I believe Congress will fail to confront the need for reform. They will instead muddle through with a program that increases the so-called flex acres in order to meet budget requirements. In this way, they will attempt to preserve payments to large interests, with some superficial window dressing applied as a disguise.

On conservation, I would expect CRP to be diminished somewhat, provided somewhat less funding, and probably retargeted, but not to the extent I propose. And I would be surprised if block granting occurs in the manner I propose.

The result is that we will probably face another five years of desultory and ineffective farm and environmental policy.

See microfilm for chart.

jaw

CAPTION:
Photograph Chart Map

DESCRIPTORS: c. ford runge; interview; agriculture; farm; environment; natural resource; government

Appendix G

7/9/7 **(Item 2 from file: 724)**
DIALOG(R)File 724:(Minneapolis)Star Tribune

08140061
BUDGET CUTTERS CAST A RENEWED GLANCE AT FARM SUBSIDIES
STAR TRIBUNE (MS) - Friday, May 19, 1995
By: Greg Gordon, Staff Writer
Edition: Metro Edition Section: NEWS Page: 01A
Word Count: 1,398

MEMO:
See microfilm for chart.

TEXT:
Washington, D.C. - James Walker is not a farmer. He is a retired lawyer who lives in the St. Paul suburb of North Oaks.

But in the past decade, federal records show, he and his brother in Florida collected more than $335,000 in federal farm **subsidies** to support operations on the Nebraska farm they inherited from an uncle.

The payments are legal.

Walker, 75, said they collect a share of the **subsidies** as rent under a ''crop-share'' arrangement with a grain farmer who leases the Walkers' 640 acres. He said the **subsidies** are just enough to meet debt payments on the farm.

Yet, federal payments to the Walkers and other so-called ''city slickers'' have become controversial as debate opens on the 1995 **farm bill** and the move to balance the budget gains momentum.

The nonprofit Environmental Working Group points to $1.3 billion in payments to dwellers in 50 large cities during the past decade ($48.3 million to 3,183 Minneapolis recipients) as evidence that farm **subsidies** are no longer going to true family farms. The group and other critics also argue that about 80 percent of the **subsidies** go to large, highly profitable operations.

At a time when virtually every federal program is being scrutinized, farm **subsidies** are under siege.

And Minnesota's members of Congress with rural interests are girding for battle, hoping to protect the interests of 85,000 farms in the state that received $622 million in federal **subsidies** and disaster aid last year.
House and Senate Republican leaders are proposing to slash $8 billion to $15 billion from farm programs during the next five years -- cuts of up to 39 percent from the administration's projected budget. Affected would be the array of loan programs, crop **subsidies** and acreage set-aside schemes that have propped up the prices of produce from corn and wheat to cotton and milk since the post-Depression years.

Some voices are calling for even deeper cuts. As the House Agriculture Committee began hearings on the **farm bill** this week, former Rep. Tim Penny of Minnesota and two farm experts urged the phased elimination of all farm **subsidies** . Instead of being paid **subsidies** based on how many bushels they produce, they said, farmers should be offered a chance to buy $20,000 in ''income-stabilization'' insurance for a small fee as a safety net in years when commodity prices tumble.

''I'm prepared to say that we should no longer treat farm programs as an entitlement,'' said Penny, who represented Minnesota's mostly rural First Congressional District.

The looming skirmishes over how to slash as much as $30 billion over five years from the Agriculture Department's budget, which also includes funding for nutrition programs such as food stamps, are likely to pit

programs for farmers against those for the poor. Big-city legislators could challenge the decades-old assumption that taxpayer dollars should be devoted to saving a dwindling number of family farms. Those representing rural states will seek tradeoffs, such as relaxation of wetlands restrictions in return for accepting cuts.

True to form, most farm-state members of Congress, including those from Minnesota, are maneuvering across party lines to limit cuts.

Sen. Richard Lugar, R-Ind., chairman of the Senate Agriculture Committee, whose members have resisted his calls for sharp **subsidy** reductions, conceded that most legislators bow to a ''sense of healthy self-preservation'' when it comes to farm programs.

Freshman Rep. Gil Gutknecht, R-Minn., seemed to speak for all Minnesota legislators representing rural districts when he said: ''Our farmers are ready, willing and able to help sacrifice in the effort to balance the budget. We just want to make sure they are not asked to pay a disproportionate share of the price.''

Of the **subsidies** , Gutknecht said, ''If you represent the First District of Minnesota, they're extremely defensible.''

Said Sen. Rod Grams, R-Minn: ''I think what we have to underscore is that . . . we don't try to balance the budget on the backs of farmers.'' While he may support farm cuts, he said that in return the government should ease restrictions on planting and narrow the definition of a wetland so farmers can increase production.

Rep. Collin Peterson, D-Minn., also wants regulations relaxed, but said that alone would not insulate farmers. If Congress adopted a House Budget Committee proposal for $17 billion in farm **subsidy** cuts over seven years, he said, ''it would put the entire northern third of my district out of business.'' Wheat farmers in that area ''aren't making it now,'' he said.

For Sen. Paul Wellstone, D-Minn., the issue is larger. He said the Senate Budget Committee's proposed $28 billion reduction in projected spending for agriculture **subsidies** and nutrition programs during a five-year period is too severe for both farmers and the poor.

Conservatives such as Grams, Peterson and Gutknecht have found themselves on particularly awkward footing, vocally defending farm **subsidies** while jockeying to live up to their campaign vows to balance the budget. Indeed, more than three dozen of the 72 freshman Republicans who won House seats last fall with calls for a balanced-budget amendment represent farming regions. ''They're squirming,'' Peterson said.

Penny said it is tough for any farm-state legislator to support **subsidy** cuts because ''the political pressure comes from those who are content with the status quo -- most of the commodity and general farm organizations.''

He said these groups, such as the American Farm Bureau, whose members include some of the nation's largest producers, ''are vocal and organized.''

But Penny said that farmers ''are more prepared for change than politicians give them credit for. . . . The farmers in my district are getting so fed up with the federal farm programs that they are not going to be frightened by the talk of radical reform.''

Farm owner James Walker said that he and his brother, William, ''would be happy to sacrifice the **subsidies** if everybody got out of them.''

''It wouldn't drive us under,'' he said, because his Nebraska tenant farms 1,700 acres with high efficiency.

''If they cut the **subsidies** , the big farmers can make it because they're efficient,'' Walker said. ''The small guys are going to have to go out of business.''

Some want to bar payments to ''city slickers.'' The Clinton administration, while proposing to leave **subsidies** largely where they are, has proposed that anyone with more than $100,000 in nonfarm income be barred from receiving **subsidies** .

But such a plan has drawbacks, and it could mean new hardships for farmers who lease: They could be forced to end crop-share arrangements and pay their rent in cash.

Ford Runge, a University of Minnesota agricultural economist, said that most large farms could survive without the **subsidies** . ''On average, for large farmers, the payments amount to less than 10 percent of their gross income,'' he said.

Among the programs under scrutiny:

- The government's system of loan rates and target prices that guarantees farmers ''deficiency payments'' when market prices for their crops fall below government-set levels.

- The decade-old Export Enhancement Program, which spreads more than $1 billion in **subsidies** annually among exporters, including **Cargill** and Pillsbury, so they can offer low-priced deals on world markets.

- The milk marketing system that sets prices based on a producer's distance from Eau Claire, Wis., heavily penalizing dairy farmers in Minnesota and Wisconsin while creating incentives for dairy farming in other states.

The mosaic of farm programs has been aimed at accomplishing several goals: boosting family farms, ensuring stable incomes for farmers, enabling them to compete in world markets and putting affordable food on the table for all Americans. Agricultural economists seem to agree that the current system is outdated, but that ending both **subsidies** and planting limitations that restrict production likely would drive many smaller farmers out of business and cause more volatility in food prices.

Rep. David Minge, D-Minn., whose Second Congressional District is dominated by farm interests, argues that simply cutting existing programs could be devastating for even medium-sized farms. Federal commodity programs already have been reduced by 50 to 60 percent during the past 13 years, while the costs of operating a farm have increased. ''If the rest of the federal budget had been reduced in anything approaching the same way, the budget would be in balance,'' he said.

Minnesota farms: Years of decline

(See microfilm for chart.)

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CAPTION:
Chart

DESCRIPTORS: farm; agriculture; federal aid; finance; budget

7/9/8 **(Item 3 from file: 724)**
DIALOG(R)File 724:(Minneapolis)Star Tribune

Appendix H

05299073
DEBATE GROWS OVER SUBSIDIES ' **ROLE IN U.S AGRICULTURE**
STAR TRIBUNE (MS) - Wednesday, October 25, 1989
By: Jeremy Iggers, Staff Writer
Edition: METRO Section: NEWS Page: 10A
Word Count: 861

MEMO:
FEEDING A HUNGRY PLANET

TEXT:
Chances are good that the sweet corn you bought this summer at Lunds or Driskill's Supervalu came from Sever Peterson's farm in Eden Prairie. Some of the 1,800 acres of rolling hills and Minnesota river bottomland have been in his family for more than a century.

There's good money in sweet corn, as long as there isn't too much corn on the market. That's why the Peterson family grows only about 300 acres of sweet corn every year. If they and their nearby competitors grew a lot more, the price would drop. They carefully adjust supply to meet demand. But Peterson can't make a living just supplying the local sweet corn market. When it comes to his other crops, he, like most Midwestern farmers, is part of a global market whose operations are beyond his control. In 1988, Minnesota farmers exported $1.4 billion worth of agricultural products to foreign countries, putting Minnesota sixth among U.S. states. Minnesota is also home for many of the world's biggest food exporting and processing firms, including Pillsbury, General Mills, International Multifoods and **Cargill** .

For years, Peterson has relied on the federal government to **subsidize** his production costs for field corn because the market price is so low. This year, the government is paying him to set aside 600 acres instead of growing corn. The price of soybeans, his other crop, collapsed this summer.

Peterson will lose money on every bushel of soybeans he grows and make money on the corn he doesn't grow. Which may be why he calls farming "economic folly."

Farm specialists disagree about the causes of and the solutions to Peterson's problems - and as to whether there is a place in world agriculture for family farmers such as the Petersons. Mark Ritchie, farm policy analyst for the Minnesota Department of Agriculture, said farmers need higher market prices. **Cargill** vice president Robbin Johnson, and C. Ford Runge, director of the Center for International Food and Agricultural Policy at the University of Minnesota, said government **subsidies** already are too high.

Current market prices for corn, wheat and rice are less than the cost of production for many U.S. farmers, who rely on **subsidies** to make up the difference. That's at least partly a result of the 1985 **farm bill** , which was designed to increase exports. Ritchie said the bill's goal was to undercut world prices and thereby capture other producers' markets.

Observers disagree on the strategy's effectiveness. Ritchie said competitor nations such as Thailand have been forced to increase production of export crops in the hope of maintaining income despite lower prices, because they needed the income to pay their bills.

Runge said that despite short-term increases by competitors, the United States has recaptured markets.

On one point, Ritchie and Runge agreed: The biggest losers in the price wars are small farmers in developing countries who can't compete with **subsidized** exports. "The farmers in those countries either had to stop producing, or lower their price below their cost of production to match the

export price," Ritchie said.

Low market prices also spell disaster for small U.S. farmers, Ritchie said: "When these low prices drive people to try to boost their production to maintain their farms . . . you get a lot of environmental degradation."

Cargill 's Johnson blamed the problem on farm **subsidy** programs. He said practices that damage the land, such as not rotating crops and overuse of chemicals, are encouraged by guarantees of above-market returns on certain commodities.

Runge and Johnson favored a more free-market-oriented approach: If **subsidies** are eliminated, production will shift to the most efficient producers. Overproduction caused by **subsidies** will disappear, and taxpayers won't pay the high costs of farm programs. Opponents of that view caution that measuring efficiency by cost-per-bushel fails to consider social and environmental costs.

Ritchie would have the U.S. government raise market prices by restricting production in agreement with other exporting countries, which would raise incomes for the world's farmers.

Runge and Johnson said that won't work. "The agribusiness sector as a whole does not favor supply control, and neither do a large share of America's farmers," Runge said.

Limiting acreage under production would encourage overworking of the acres that remain under cultivation, and an increase in U.S. market prices would spur production by competitors and a loss of export markets, he said.

Runge favors a gradual move toward abolishing agricultural **subsidies** worldwide. Farmers would get support payments based on financial need and would decide what to plant based on market conditions rather than government programs.

Many farmers oppose this decoupling concept, which Sen. Rudy Boschwitz supports.

He believes that decoupling would "give farmers a chance to prosper in a free and open marketplace," by breaking the link between income support and the requirement that farmers plant a certain crop.

National Farmers Union president Leland Swenson has attacked decoupling as a "short-term welfare program" that would be devastating for rural communities and Third World farmers.

Peterson says he expects next year's farm programs to be relatively unchanged. He's planning to plant soybeans, sweet corn and a few acres of squash and pumpkins.

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CAPTION:
PHOTO

7/9/9 **(Item 1 from file: 781)**
DIALOG(R)File 781:ProQuest Newsstand

Appendix I

03788319 MSP879212 (THIS IS THE FULLTEXT)

Folksy Wellstone style stirs Iowa labor crowd

The Minnesota senator is earning stature as a serious candidate for the 2000 presidential nomination, state Democratic leaders say.

Sharon Schmickle; Staff Writer
Star-Tribune Newspaper of the Twin Cities Mpls.-St
Thursday, August 13, 1998
DOCUMENT TYPE: Newspaper, Large JOURNAL CODE: MSTN LANGUAGE: ENGLISH
RECORD TYPE: FULLTEXT
Word Count: 1,007

TEXT:
Mark Smith credited old-fashioned Iowa politeness for the first standing ovation Sen. Paul Wellstone received at a labor convention Wednesday.

But the Minnesota Democrat - with his folksy style and animated calls for "good education, good health care, good jobs" - earned the four ovations that quickly followed, said Smith, president of the Iowa Federation of Labor, AFL-CIO. And, after a year of working Iowa from the county fairs to the student unions, Wellstone is earning stature as a serious candidate for the 2000 presidential nomination, Smith and several of state Democratic leaders said. His gradual rise to recognition helps draw audiences for his message that declares liberal values anything but dead in politics.

I don't know what kind of a chance he's got for a presidential bid, but he certainly moves the debate to the issues that are of concern to working people," Smith said.

Vice President Al Gore remains, by far, the top choice of Iowa Democrats, followed by House Minority Leader Dick Gephardt and then Wellstone, said Richard Machacek.

Machacek raises corn and soybeans in northern Iowa and serves on the state central committee of the Iowa Democratic Party.

"If I had to bet more than a dollar, I'd bet on Gore, but I don't know that I want to vote for him," Machacek said. "If I had my druthers to stand in the sun and listen to a speech, I'd choose Paul Wellstone, hands down."

Gore's ability to avoid damage from the scandals surrounding President Clinton is the wild card at this point, he said.

In southeastern Iowa, Anne Pedersen, vice chairman of the Iowa Democratic Party, said Democrats see a lot of Gephardt, whose base is a few hours away in St. Louis. But Wellstone could emerge as Gore's main challenger elsewhere in Iowa, she said.

"It's the energy," Pedersen said. "He also has the biggest heart in the whole world, and he is not afraid to show his emotions. . . . He connects."

During the Senate's August recess, Wellstone also has traveled to California, Michigan, Florida and Ohio. He's in Chicago today, and he plans to speak in Las Vegas and San Antonio later.

In addition to crisscrossing the country, Wellstone has begun building a national staff. He recently hired a policy expert, William Dauster, described by columnist Robert Novak as "the most highly regarded policy staffer" of Sen. Edward Kennedy, D-Mass. Wellstone has candidates in mind for other key positions such as campaign manager and field organizers, but he said they won't be hired until he definitely decides to run.

"I want to do this. It's inside of me," Wellstone told the 300 at the labor convention. Still, the final decision to launch a campaign won't come until after November, he said. And if he runs, it will be to win.

But national pundits are somewhat puzzled over what to make of a shoestring campaign coming from the Democrats' bruised left wing. "Nobody seems to have told Paul Wellstone . . . that liberalism is dead," syndicated columnists Jack Germond and Jules Witcover have written. Wellstone proved in Minnesota that he has an unusual knack for mobilizing grassroots support, Washington Post columnist David Broder said in June. But "Vice president Al Gore's people can afford to look on Wellstone's efforts with bemused tolerance," he added.

Ultimately, Wellstone's bid would depend on his ability to raise enough money to stay in the race through the decisive early months of 2000. He wouldn't say Wednesday how much he has, except to say that it is "hundreds of thousands of dollars," more than enough to hire a staff and get started. But because he won't match the money his competitors can raise, he said, his strategy depends upon a strong showing in the Iowa and New Hampshire primaries. "The first two states are living-room politics states, and that's my love," he said.

Wellstone roused the union members with calls for a renewed faith in collective solutions to problems confronting working families, the elderly, children and the poor: "People don't buy this philosophy that there is nothing government can or should do."

He challenged Democrats to stop running from the liberal label and to fight for public schools, jobs that pay a living wage, and health coverage for everyone. "Good education, good health care and good jobs - that's what the Democrats stand for. I represent the Democratic wing of the Democratic Party," he shouted.

He decried what he called a "New Isolationist" philosophy of "Buddy, you're on your own." He called instead for a renewed sense of a common American journey: "Whatever happened to the idea that we all do better when we all do better?"

Turning to the GOP agenda, he referred repeatedly to House Speaker Newt Gingrich of Georgia and criticized efforts by the "Gingrich Congress" to revamp the Occupational Safety and Health Administration, to shift the balance of relations between employers and employees and to block wage gains.

He asserted that the GOP-sponsored 1996 Freedom to **Farm Act**, intended to wean farmers from government **subsidies**, was "great for **Cargill** and the big grain companies but terrible for the family farm."

Wellstone has a good message, but he lacks a national voice for making it heard, Justin Shields of Cedar Rapids said later.

But Lee Kohl, also from Cedar Rapids, recalled other virtual unknowns who have shown up in Iowa over the years. They included Jimmy Carter and Bill Clinton.

Many of the members agreed that Wellstone has a good chance to make a respectable showing in a state such as Iowa, where grassroots efforts can thrive. His problem would come on Super Tuesday when a wave of primaries would undercut Iowa's impact, said Dow Voss, an electrician from Iowa City.

For now, an ebullient Wellstone left them with this promise: If I decide to run, he said, "I will come back over and over and over again and ask you for ... your support."

- Washington Bureau chief Tom Hamburger contributed to this

report.

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